

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57814

PUYALLUP HOUSING AUTHORITY

Pierce County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: October 25, 1996

TABLE OF CONTENTS

	Page
<hr/> Management Section <hr/>	
Independent Auditor's Report On Compliance With Laws And Regulations At The Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260)	M-1
Independent Auditor's Report On Internal Control Structure At The Financial Statement Level	M-3
Schedule Of Findings:	
1. The Housing Authority Should Improve General Ledger Internal Controls	M-5
<hr/> Financial Section <hr/>	
Independent Auditor's Report On Financial Statements Of HUD Supported Programs And Supplemental Information Required By HUD	F-1
Financial Statements:	
Balance Sheet - 1995	F-3
Income Statement - 1995	F-4
Notes To Financial Statements	F-5
Supplementary Information:	
<u>Section 8 Certificates (WA19-E053-006-010)</u>	
Balance Sheet - 1995	F-8
Voucher For Payment Of Annual Contributions And Operating Statement - 1995	F-11
<u>Section 8 Vouchers (WA19-V053-004)</u>	
Balance Sheet - 1995	F-15
Voucher For Payment Of Annual Contributions And Operating Statement - 1995	F-18
<hr/> Single Audit Section <hr/>	
Independent Auditor's Report On Supplementary Information Schedule Of Federal Financial Assistance	S-1
Schedule Of Federal Financial Assistance - 1995	S-2
Independent Auditor's Report On Compliance With The General Requirements Applicable To Federal Financial Assistance Programs	S-3
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Major Federal Financial Assistance Programs	S-5
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Nonmajor Federal Financial Assistance Program Transactions	S-7
Independent Auditor's Report On Internal Control Structure Used In Administering Federal Financial Assistance Programs	S-8
<hr/> Addendum <hr/>	
Directory Of Officials	A-1

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the financial statements, as listed in the table of contents, of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 23, 1996. Our report was modified because the housing authority was unable to provide written representations that generally accepted auditing standards require us to obtain and because the financial statements were prepared on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Because of the resignations of the housing authority's contracted executive director, chief financial officer, and controller, we were unable to obtain written representations from the housing authority's management that generally accepted auditing standards require us to obtain.

Compliance with laws, regulations, contracts, and grants applicable to the Puyallup Housing Authority is the responsibility of the housing authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the housing authority's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the housing authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the housing authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the housing authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management, the board of commissioners, and officials of HUD and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 23, 1996

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the financial statements of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 23, 1996. Our report was modified because the housing authority was unable to provide written representations that generally accepted auditing standards require us to obtain and because the financial statements were prepared on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Because of the resignations of the housing authority's contracted executive director, chief financial officer, and controller, we were unable to obtain written representations from the housing authority's management that generally accepted auditing standards require us to obtain.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting practices as prescribed or permitted by HUD. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the housing authority, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted reportable conditions that we believe to be material weaknesses, which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management, the board of commissioners, and officials of HUD and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 23, 1996

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Housing Authority Should Improve General Ledger Internal Controls

The Puyallup Housing Authority contracts with the Pierce County Housing Authority (PCHA) to provide its accounting services. Our audit of PCHA disclosed material weaknesses in accounting controls, poor accounting records, and significant turnover of accounting staff. The weak controls included:

- a. The current general ledger system cannot be closed out, thus allowing transactions to be posted to the incorrect fiscal period.
- b. General ledger journal entries could be prepared by management personnel without review or approval prior to entry into the general ledger system.
- c. Internal audit adjustments had no supporting documentation.
- d. No computer controls prevented transaction posting dates from differing from the actual calendar date of posting.

When internal controls for the general ledger systems are weak or absent, the risk increases that errors or irregularities could go undetected for some time. Also, the ability to prepare accurate and timely information is greatly impaired.

We recommend housing authority officials ensure that any contracted accounting service provider establishes and maintains adequate accounting controls.

Auditee's Response

The Pierce County Housing Authority has taken steps to solve the deficiency in the general ledger system, including the creation of a new general ledger file on the computer each year so that an errant key stroke will not allow the general ledger file to be updated incorrectly. The authority now requires general ledger journal entries to have a second signature before they are entered into the system; this is also true of any adjusting journal entries.

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements Of HUD Supported
Programs And Supplemental Information Required By HUD**

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the accompanying financial statements of the programs supported by the U.S. Department of Housing and Urban Development (HUD) and the Local Fund of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the resignations of the housing authority's contracted executive director, chief financial officer, and controller, we were unable to obtain written representations from the housing authority's management that generally accepted auditing standards require us to obtain.

The housing authority's policy is to prepare its financial statements referred to above on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. The accounting practices prescribed by HUD differ from generally accepted accounting principles, including the lack of required note disclosures. The effects of these departures from generally accepted accounting principles are not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain written representations from management, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial positions of the HUD supported programs of the Puyallup Housing Authority as of December 31, 1995, or the results of their operations for the fiscal year then ended.

However, in our opinion, such financial statements present fairly, in all material respects, the financial positions of the HUD supported programs of the Puyallup Housing Authority at December 31, 1995,

and the results of their operations for the fiscal year then ended, in conformity with the prescribed basis of accounting.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial statements for HUD supported programs are not a required part of the financial statements but are supplemental information required by HUD. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the respective HUD supported programs and, in our opinion, is fairly presented in all material respects in relation to the financial statements of such programs taken as a whole, on the basis of accounting practices prescribed or permitted by HUD.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 23, 1996, on our consideration of the housing authority's internal control structure and a report dated July 23, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

July 23, 1996

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the financial statements of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 23, 1996. Our report was modified because the housing authority was unable to provide written representations that generally accepted auditing standards require us to obtain and because the financial statements were prepared on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the resignations of the housing authority's contracted executive director, chief financial officer, and controller, we were unable to obtain written representations from the housing authority's management that generally accepted auditing standards require us to obtain.

Our audit was made for the purpose of forming an opinion on the financial statements of the Puyallup Housing Authority taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

July 23, 1996

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the financial statements of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 23, 1996. Our report was modified because the housing authority was unable to provide written representations that generally accepted auditing standards require us to obtain and because the financial statements were prepared on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles.

We have applied procedures to test the housing authority's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition

Except as described in the following paragraph, our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

Because of the resignations of the housing authority's contracted executive director, chief financial officer, and controller, we were unable to obtain written representations from the housing authority's management that generally accepted auditing standards require us to obtain.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the housing authority had not complied, in all material respects, with those requirements.

This report is intended for the information of management, the board of commissioners, and officials of HUD and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 23, 1996

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the financial statements of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 23, 1996. Our report was modified because the housing authority was unable to provide written representations that generally accepted auditing standards require us to obtain and because the financial statements were prepared on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles.

We also have audited the housing authority's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements are described in the HUD *Public and Indian Housing Compliance Supplement* (Interim Guidance, June 1995).

The management of the housing authority is responsible for the housing authority's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the housing authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Because of the resignations of the housing authority's contracted executive director, chief financial officer, and controller, we were unable to obtain written representations from the housing authority's management that generally accepted auditing standards require us to obtain.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to obtain written representation from management, the Puyallup Housing Authority complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management, the board of commissioners, and officials of HUD and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 23, 1996

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the financial statements of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 23, 1996. Our report was modified because the housing authority was unable to provide written representations that generally accepted auditing standards require us to obtain and because the financial statements were prepared on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles.

In connection with our audit of the financial statements of the housing authority and with our consideration of the housing authority's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance program for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing eligibility of the individuals or groups to whom the housing authority provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Puyallup Housing Authority had not complied, in all material respects, with those requirements.

This report is intended for the information of management, the board of commissioners, and officials of HUD and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 23, 1996

PUYALLUP HOUSING AUTHORITY
Pierce County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Commissioners
Puyallup Housing Authority
Puyallup, Washington

We have audited the financial statements of the Puyallup Housing Authority, Pierce County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 23, 1996. Our report was modified because the housing authority was unable to provide written representations that generally accepted auditing standards require us to obtain and because the financial statements were prepared on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated July 23, 1996.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the housing authority complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

Because of the resignations of the housing authority's contracted executive director, chief financial officer, and controller, we were unable to obtain written representations from the housing authority's management that generally accepted auditing standards require us to obtain.

In planning and performing our audit, we considered the housing authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated July 23, 1996.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting practices as prescribed or permitted by HUD.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific requirements as described in the HUD *Public and Indian Housing Compliance Supplement***

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **General Requirements**
 - Relocation assistance and real property acquisition

During the fiscal year ended December 31, 1995, the housing authority expended 63 percent of its total federal financial assistance under a major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the housing authority's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the housing authority's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted reportable conditions involving the accounting and/or administrative internal control structure and its operation that we believe to be material weaknesses as defined above. The conditions, which are identified in the Schedule of Findings accompanying this report, considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the housing authority's compliance with requirements applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995, and this report does not affect our report thereon dated July 23, 1996.

This report is intended for the information of management, the board of commissioners, and officials of HUD and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 23, 1996